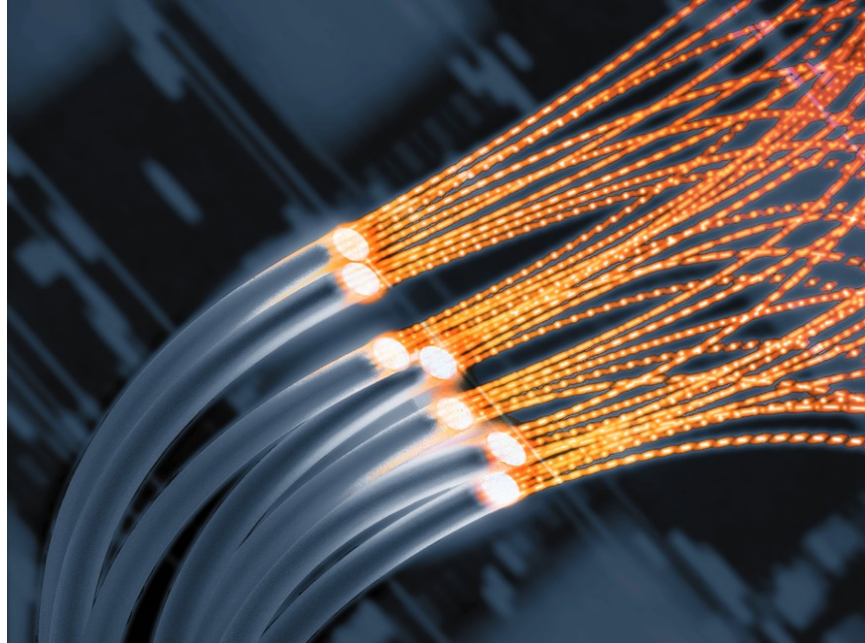


## ***Business Measures Discussion***



## ***Security Cooperation Conference***



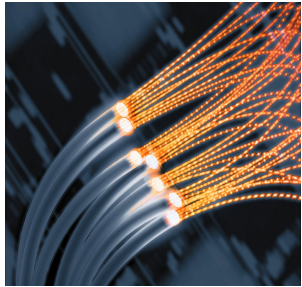
10 July 2000



## **Agenda**

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- Thoughts on Business Measurement
- Attributes of a Good Business Measure
- Broad Types of Measures
- Targets, Goals and Standards
- Balanced Scorecard
- Scorecard Cases
- Discussion

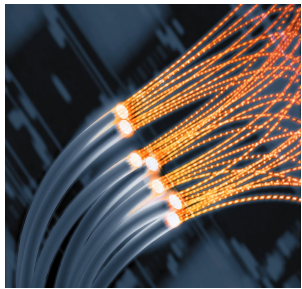


# Thoughts on Business Measurement

Business Measurement Discussion

The purpose of Business Measurement is to motivate and measure the desired behavior in an organization...





# Thoughts on Business Measurement

Business Measurement Discussion

## ***Qualities of a world-class measurement system***

- Provides relevant and timely information required to meet the strategic objectives of the organization
  - Accurate product and customer cost information
  - Accurate operational performance information
  - Dissemination of information to the right people at the right time in the right format
- Less is more... focuses on a handful of critical measures to accurately portray the performance of the organization
- Enables management to simulate future scenarios on which significant decisions will be based
- Allows management to understand operational processes and stimulate process dynamics in order to optimize efficiencies and outputs
- Links the organization's strategic, operational, and individual goal setting process





# Thoughts on Business Measurement (cont'd)

Business Measurement Discussion

## Common Current State

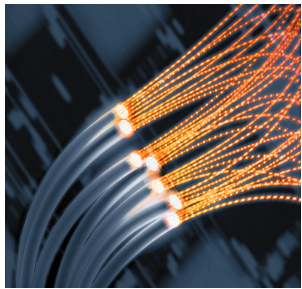
- Inefficient mechanics of planning and reporting
- Plans and measures not aligned with organization strategy and goals
- Focus primarily on output measures
- Information and reporting cycles not linked to business cycle
- Plethora of spreadsheets and fragmented data stores
- Information not easily accessible for employee action
- Managers manage “around” plans
- Employee goals and appraisals not linked to business objectives

## Future Vision...Performance Commitment

- Efficient process focused on analysis and value addition
- Measures are a key communication and commitment mechanism
- Measures and information accessible and used by all levels of the organization
- Continuous or dynamic planning, responsive to environment
- Measures linked to organizational priorities
- Budgeting process develops commitment to priorities
- Employee goal setting and performance appraisal develops commitment to organizational goals

- Weak linkage between individual performance and rewards

- Rewards are linked to performance



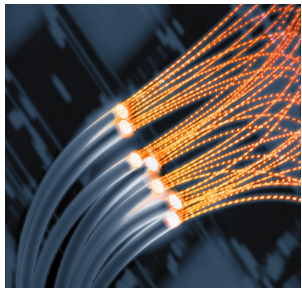
# Attributes of a Good Business Measure

Business Measurement Discussion

- Supports Organization's Goals and Objectives
  - Aligned with organizations direction
- Meaningful to customers
  - Supports customer focus
- Understandable, logical and repeatable
- Shows a trend over time
- Clearly defined
  - Virtually anyone in the organization understands what it is
- Economical to collect data
  - The result is worth the effort
- Provides timely information on which to take action
- It drives the appropriate action or behavior

***The measure is a means to an end, not an end in itself!***





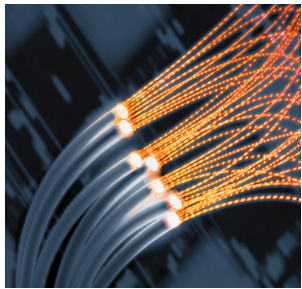
# Broad Types of Measures

Business Measurement Discussion

- Raw data indicators
  - Simple data that is reviewed for information purposes
  - Can not be tied to a process
  - Provides a general perception of the health of the organization
- External output measures
  - Monitors volume or quality of output
  - Provides possible insights into customer satisfaction
- Internal process measure
  - Provides insight into the performance of a process as the output is created
  - Designed to show ways to improve processes

***Measures without targets, goals or standards  
are largely worthless***





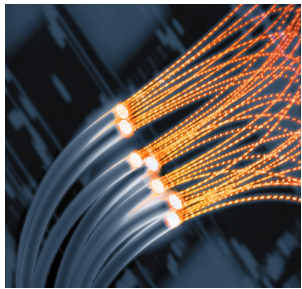
# Targets, Goals and Standards

Business Measurement Discussion

- Must be attainable
  - Are processes capable of operating at that level?
  - Are resources sufficient to be successful?
  - If additional resources are required are they justified?
- Should be statistically based if possible
  - Upper and lower performance limits set over time based on SPC
  - Fully mapped and normalized processes a must
- Must drive the desired behavior
  - Consider behavior at all levels... individual, office, divisions, functional areas, etc.





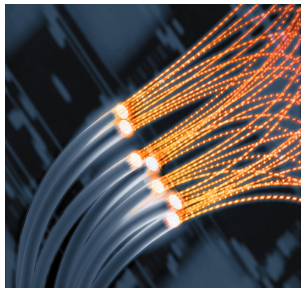


# Balanced Scorecard

Business Measurement Discussion

- A management system that aligns performance throughout an organization to achieve strategic goals
- Performance is measured in four quadrants
  - Financial, customer, internal processes, and organizational learning
- The four quadrants are linked by cause and effect
  - Improving performance in one quadrant affects the level of performance of the other quadrants
  - For example, organizational learning and growth improves the execution of internal business processes, which leads to higher customer satisfaction, which results in financial gains





## Balanced Scorecard (cont'd)

Business Measurement Discussion

- Balanced Scorecard links strategy to activities throughout the organization
  - Key to linking performance
- Accomplished by cascading strategic themes to identified critical success factors,
  - Key performance factors are then quantified
- Process is repeated as the groups look to the level above to derive their strategic objectives, critical success factors, and key performance indicators
  - Ensures that performance at the lowest levels supports organizational strategy





# Balanced Scorecard (cont'd)

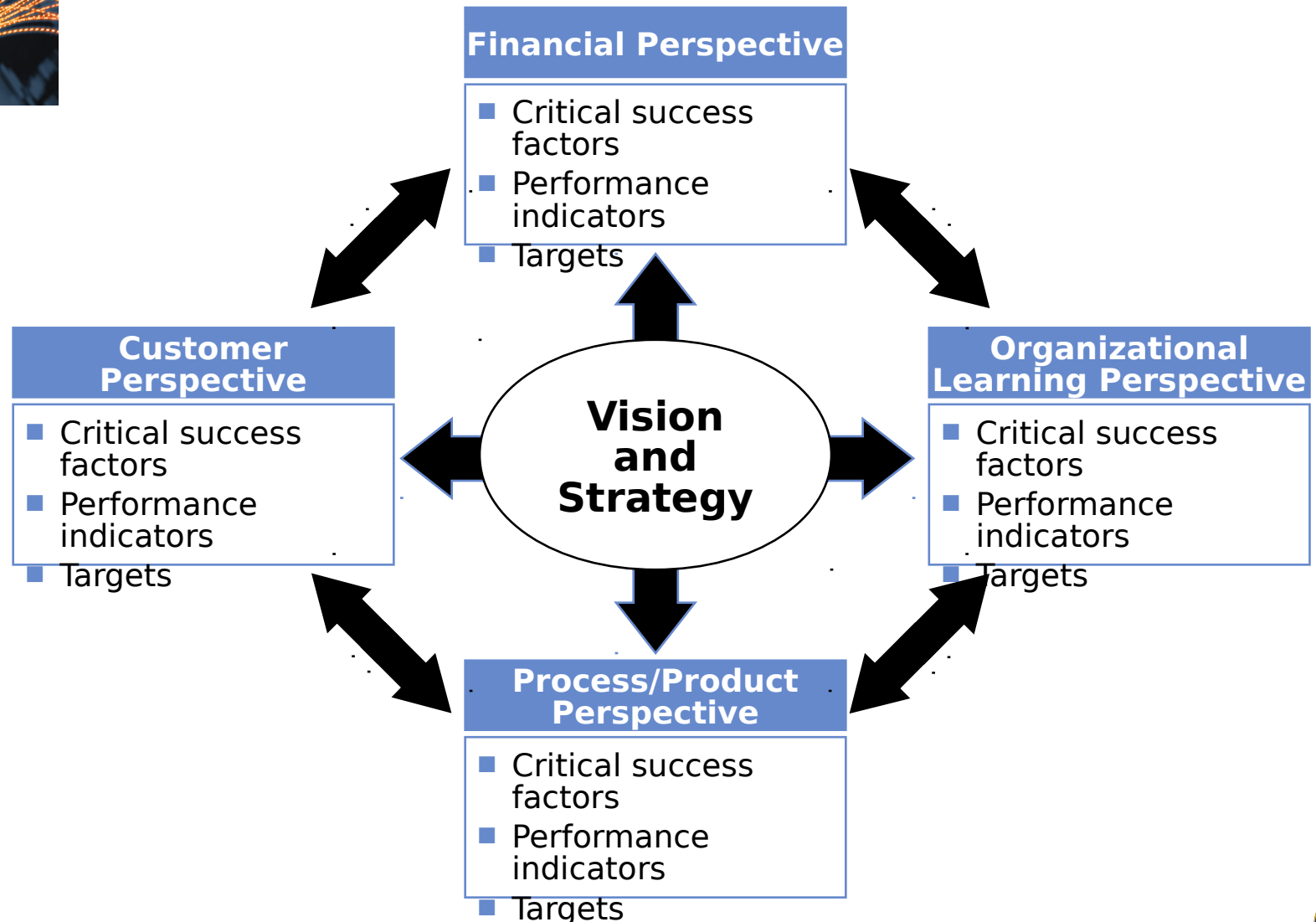
Business Measurement Discussion





# Balanced Scorecard (cont'd)

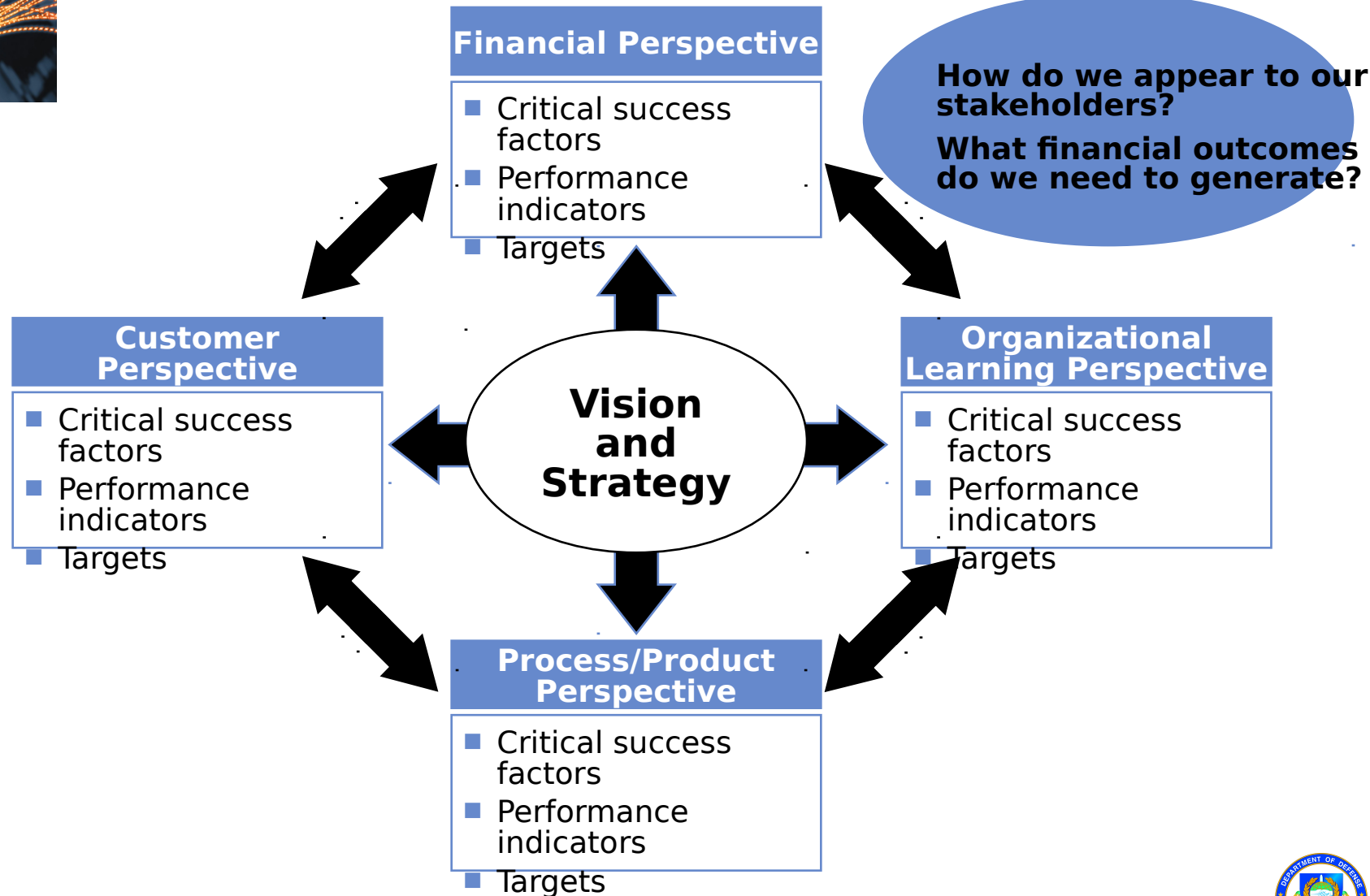
Business Measurement Discussion





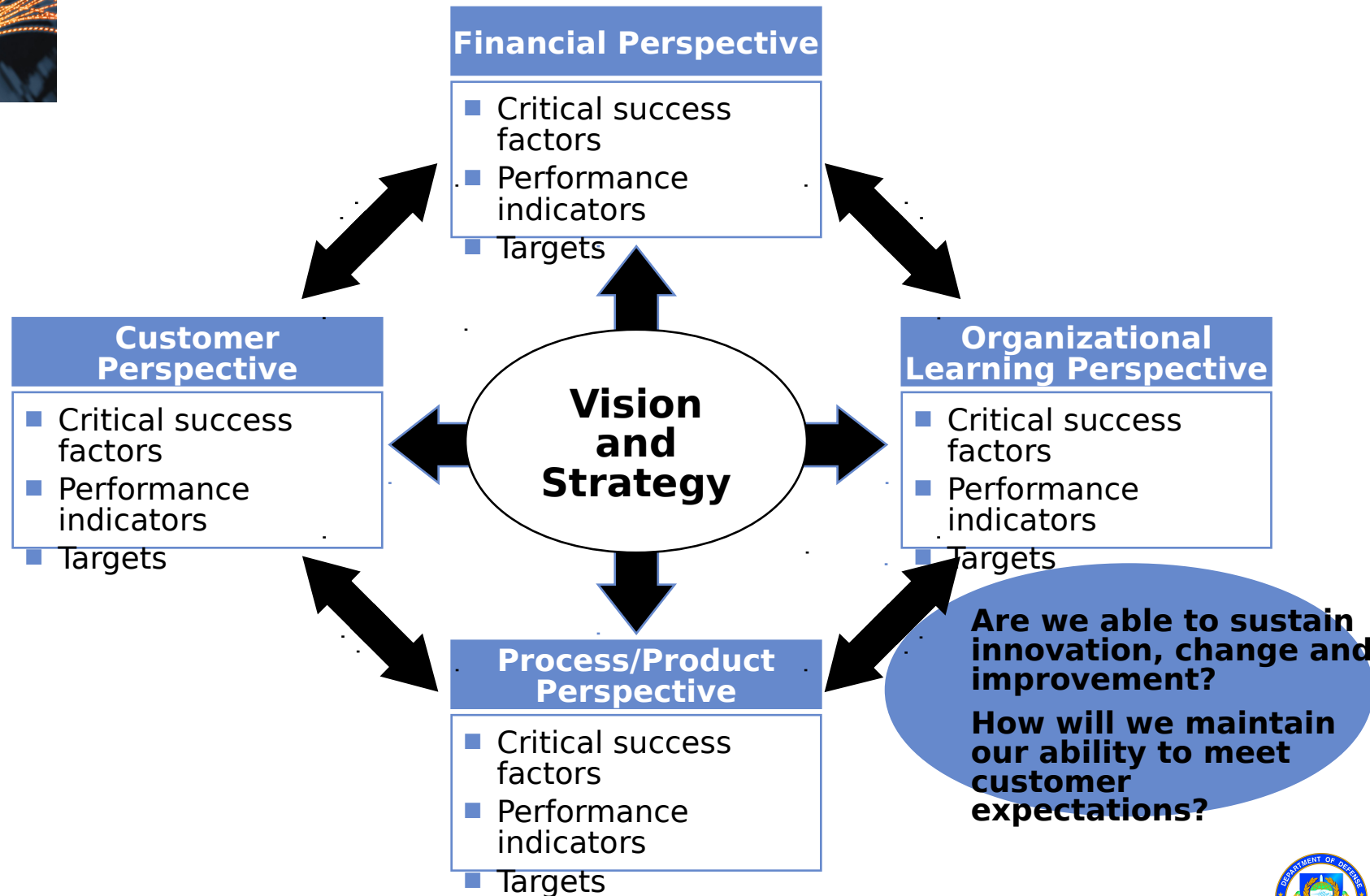
# Balanced Scorecard (cont'd)

Business Measurement Discussion



# Balanced Scorecard (cont'd)

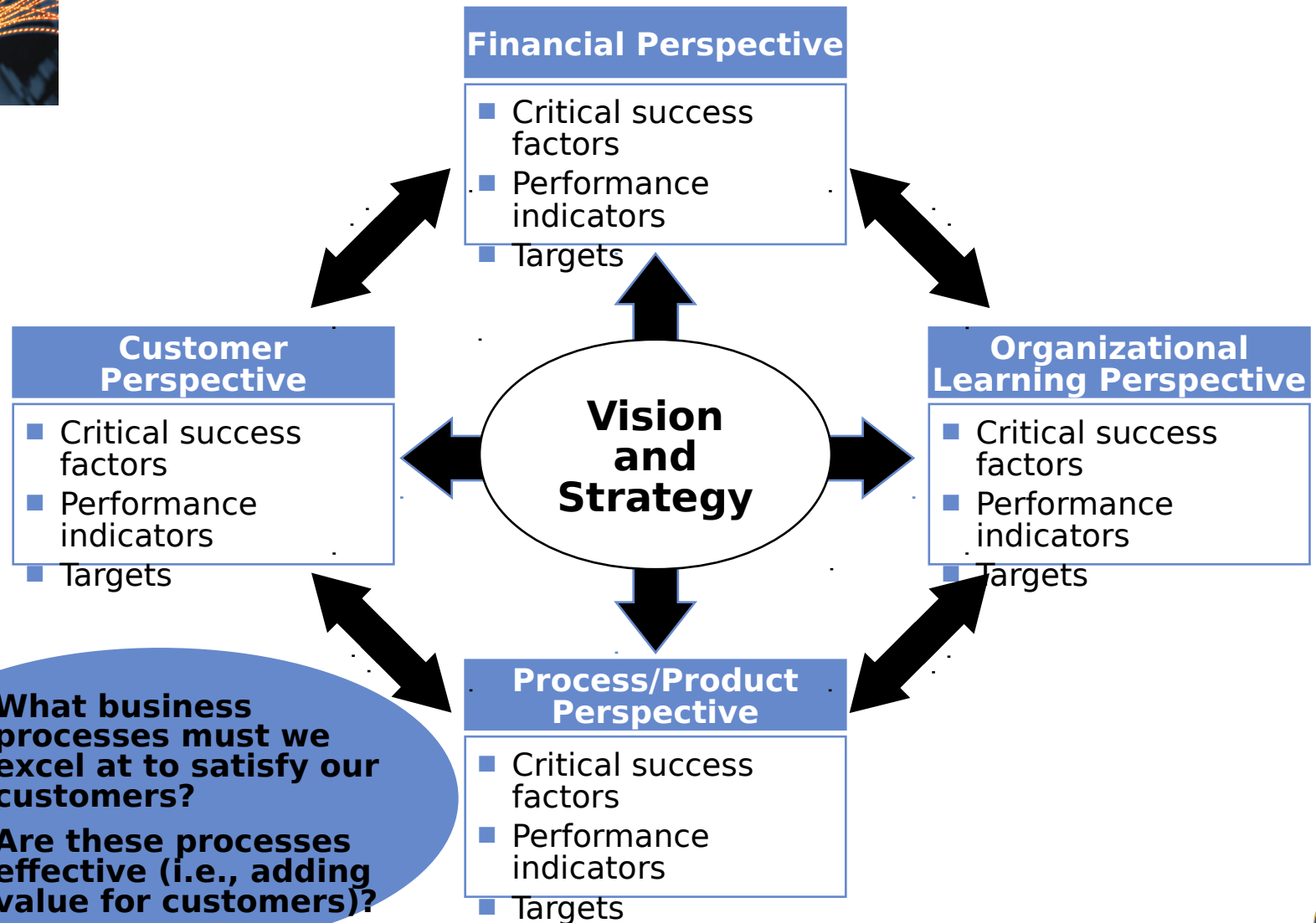
Business Measurement Discussion





# Balanced Scorecard (cont'd)

Business Measurement Discussion



**What business processes must we excel at to satisfy our customers?**

**Are these processes effective (i.e., adding value for customers)?**

■ **Are they efficient?**



# Balanced Scorecard (cont'd)

Business Measurement Discussion





# Case Study - Managed Services Company

Business Measurement Discussion

- \$4 billion managed services company identified several concerns with existing performance measurements:
  - More than 94 metrics used across the seven lines of business (LOB's).
    - Not clearly linked to vision and strategy, mainly financial, internal, and historical.
  - Inconsistently tracked, communicated, and available to users.
- Challenge
  - Develop a consistent and limited number of performance measures for each line of business utilizing the framework of the Balanced Scorecard
  - Cascade the line of business Scorecards to the Region, District, and Front Line levels linking LOB vision and strategy to Front Line operations
  - Design and develop a delivery system to enable tracking of actual performance against measurement targets
- Results
  - Replacement of monthly and quarterly reporting (President's Report, Operating Report, etc.) with Balanced Scorecard measurements.
  - Drill down capabilities to measure performance against targets for LOB, Region, District and Front Line.
  - Increased individual motivation and accountability to achieve performance that is linked to strategic goals



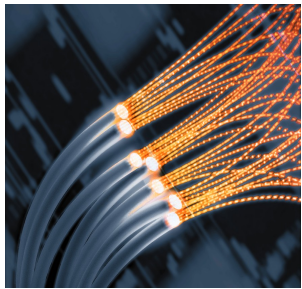


# Case Study - Consumer Products Company

Business Measurement Discussion

- A \$3 billion global consumer products corporation experienced external pressure to increase shareholder value. To achieve increased shareholder value the company wanted to address the total performance of all operating companies by developing and implementing Balanced Business Scorecards
- Challenge
  - Create understanding of Balanced Scorecard concept and its relation to shareholder value creation
  - Create understanding of the strategic issues facing each company and the relation to the corporate objective of increasing shareholder value
  - Determine how to measure and monitor the progress of the strategies set out by the operating companies in alignment with the corporate strategic objectives
- Results
  - Realignment of the strategic initiatives and priorities of resource allocation of all operating companies with the defined shareholder value objectives
  - Realization of more relevant and accurate performance feedback to executives and managers in a timely manner
  - Development of a performance management foundation for improved planning and budgeting





# Balanced Scorecard Benefits

Business Measurement Discussion

- Focuses the organization on what is most important
  - Linked to strategies, goals, impact to customers
- Provides foundation for continuous improvement
  - Balances improvement among all four quadrants
- Supports the good of the organization over the good of an individual or functional group
- Focuses attention on continuously improving employee performance
- Balances internal and external perspectives
  - Employees versus customers
- Balances short and long term objectives

***Balanced performance in all four quadrants is the end goal!***





# Discussion

Business Measurement Discussion

